ISMIE Mutual Reconciliation of Exhibit 2A Reserve Study with 2008 Annual Statement

Exposure data under (C-5)(1)(a) does not reconcile to the ISMIE annual statement as it is information not included in the statement. The data was compiled in a manner consistent with the process used to get exposures for ISMIE rate level and relativity studies.

To create the (C-5)(1)(a) loss exhibits, actual direct paid amounts by claim were summed up at the required summary levels by policy year and evaluation year. The summation would reproduce the paid amounts shown in the Annual Statement, less non Illinois business. Non Illinois business does not appear until the 2000 year, and is only about 1% of the total. For claims that were open, reserve amounts were shown which, when summed up by year, would reproduce the total case and bulk and IBNR reserves in the Annual Statement, again with the exception of non Illinois business.

To create the (C-5)(2)(a) reserve exhibits required by Section 4203, first exhibits in the formats of Schedule P, parts 1 through 6, were created for direct experience for all of ISMIE Mutual. To do this, data was extracted from ISMIE Mutual Annual statements from 1999 through 2008. This was done for medical malpractice claims made and occurrence (in ISMIE's case extended reporting), which represent the policy types to be shown, CMPA (Claims Made Including Prior Acts) and OERE (Occurrence Including Extended Reporting Endorsements). Next, the ISMIE data was split into 4 groups. Three were the "Health Care Insurer Types", PHSU (Physicians, Surgeons and Osteopaths), OHCP (Other Health Care Professionals), and OHCF (Other Health Care Facilities). ISMIE is considering policies issued covering corporate entities as OHCF, and has no data for HOSP as does not write hospital professional liability. The fourth group was all non Illinois business. Using the year end 2008 data, percentages were derived for the four groups for claims, losses and expenses paid and incurred, and premium. These percentages were then used to split the direct claims made and occurrence data in the Schedule P type exhibits into 8 sets of exhibits, one for each of 2 policy types for the 3 health care types and non Illinois. The split data (including non Illinois for this check) was then checked. and if necessary adjusted, to make sure the 4 parts summed up to the 2008 total for both claims made and occurrence. The 6 resulting Illinois sets of part 1 through 6 exhibits are thus the data filed as Exhibit 2A reserves. The non Illinois portion has not been included. The values for evaluations prior to 2008 are the same as filed last year, with the exception of earned premium amounts for 2007, which had included non Illinois premium.

We the undersigned, certify that the data filed (as described above) under the requirements of section 4203 is accurate to the best of our knowledge and reasonably reconciles with the most recently filed annual statutory financial statement.

John M. Meeks   David A. Wichmann

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ISMIE Mutual Insurance Co.

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2008 ISMIE Mutual Company Defined Items.

1. Data in the exhibits requiring county is grouped by physician county (policy issuing county). This is consistent with how rates have always been calculated, as where a physician's practice is located is known when a policy is issued, but where any claim might be brought is not.
2. There have been no changes to payment or reserving practices.
3. A claim is closed when it has been assigned a closed date and is not currently reopened.
4. ISMIE issues coverage to corporate entities, which can range from one or two doctors incorporating a practice to large single or multi practice clinics or groups. The entity will have a policy limit in its own right as will each individual member of the group
5. ISMIE Mutual's base class is Class 5, which is predominantly Internal Medicine, No Surgery, No Major Risk Procedures. In 2006/07, Gynecology, No Surgery, No Major Risk Procedures was added. The base territory is Territory 1which includes Cook, Jackson, Madison, St. Clair, and Will counties. Exhibit (C-5)(b) is by ISO specialty, and is not impacted by ISMIE class definitions.
6. The extended reporting exposures are counted as one exposure, adjusted for class and territory to a base class equivalent. They are not adjusted by tail factors. Each such exposure is included only in the year of issue, it is not included as an exposure in subsequent years.
7. The tail factors listed were different for each maturity, and are applied to the expiring claims made premium. Thus the factors take into account whatever maturity the policy was at, rather than being applied to the mature step premium.
8. The expenses included in the expense factor are those associated with policy issuance, underwriting, and other operating expenses of the company. Claim department expenses are included in the unallocated loss adjustment expense (ULAE) factor.
9. The other factors included in the report that ISMIE uses in the rate filing include a combined load for contingency and cost of reinsurance. The cost of reinsurance is not split out as it varies from year to year depending on the level of reinsurance purchased and the terms. The cost of reinsurance is considered to be equal to the present value of premiums expected to be ceded by ISMIE less the present value of losses expected to be ceded. Tails issued for death, disability, or retirement (DDR) are funded through a separate load to premium. There is one combined load to include commission, taxes, fees, and assessments. Investment income is included by assuming an interest rate (after investment expenses), that will be earned on new money. This rate is used to account for the time value of money, both as regards to the payment of premium to ISMIE and losses by ISMIE, with the net result being used to reduce the portion of premium needed to fund losses and loss expense. Class and territorial changes can provide an off balance to the original indication for the base class, which is calculated before considering such changes. The base class must then be adjusted up or down by this factor. In the report, a negative amount (such as -.011) means that the effect of the changes would be to reduce collected premium by that amount, and a positive number

would increase premiums. In either case, the base rate is adjusted in the opposite direction. The requested overall change is not impacted by the relativity off balance adjustment. The result is to make collected overall premiums the same, that is the premium expected using the relativity changes and adjusting the base indication for the off balance are the same as what would be expected using the original base rate indication with no relativity changes being occurring. In 2008, the relativity changes are such that no change to the base rate is needed for premium to be in balance. Various credits and debits (schedule credits or debits based on policy characteristics, loss free credits based on experience, newly practicing physician credits which recognizes reduced loss potential for the early years of practice, and "Risk/Reward" credits (based on participation in risk management programs) will be applied to individual policies, and thus the manual rate will not be equal to the needed collected rate. To account for this, a combined off balance factor is used to produce a manual rate that will result in the needed collected rate after the application of the credits and debits.

10. In 2006, the first year Reserve Study exhibit 2A was done, losses had to be split into the various groupings required. Data had not been compiled on an accounting basis using such groupings, and loss ultimates had not been computed. To create the reserve exhibits of (C-5)(2)(a) as required by Section 4203, first exhibits in the formats of Schedule P, parts 1 through 6, were created for direct experience for all of ISMIE Mutual. To do this, data was extracted from ISMIE Mutual Annual statements from 1997 through 2006. This was done for medical malpractice claims made and occurrence (in ISMIE's case extended reporting), which represent the policy types to be shown, CMPA (Claims Made Including Prior Acts) and OERE (Occurrence Including Extended Reporting Endorsements). Next, the ISMIE data was split into 4 groups. Three were the "Health Care Insurer Types", PHSU (Physicians, Surgeons and Osteopaths), OHCP (Other Health Care Professionals), and OHCF (Other Health Care Facilities). ISMIE considers policies issued covering corporate entities as OHCF, and has no data for HOSP, as it does not write hospital professional liability. The fourth group was all non Illinois business. Using the year end 2006 data, percentages were derived for the four groups for claims, losses and expenses paid and incurred, and premium. These percentages were then used to split the direct claims made and occurrence data in the Schedule P type exhibits into 8 sets of exhibits, one for each of 2 policy types for the 3 health care types and non Illinois. The split data (including non Illinois for this check) was then checked. and if necessary adjusted, to make sure the 4 parts summed up to the 2006 total for both claims made and occurrence, and that past data also summed up to the total data in past annual statements, with the paid and IBNR allocations limited so as to never exceed the incurred. The 6 resulting Illinois sets of part 1 through 6 exhibits are thus the data filed as Exhibit 2A reserves. The non Illinois portion has not been included.

    The procedure was repeated in 2007, with the results from last year for the years 1999 to 2007 are kept for the 2008 reports. The 1998 year has been dropped out and the 2008 year evaluations for calendar/accident years 1999 to 2008 were calculated in the same manner as above.

11. The data for Exhibit 2A reserves has been put into a text file format in the same manner as was agreed last year according to a discussion ISMIE staff had in 2006 with staff of the Division of Insurance. On page 15 of Section 4203 Appendix B shows a format that allows10 spaces for the FEIN Number, but this number is only 9 digits. We have thus added a leading zero in column 1, and the actual number is in columns 2 through 10. Also on page 15, the format specified only allows two spaces for Policy Type in columns 20 and 21. However the codes as defined on page 10 are CMPA and OERE, both 4 letters long. The format for the 2A reserves we have used has this code in positions 20 to 23. Thus all the other data, beginning with "Year Premium Earned" starting in column 24 rather than 22, is shifted over two spaces. Also the data in the Surplus Exhibit 2A Surplus for Change in Net Deferred Income Tax and Change in Nonadmitted Assets is in 1000's, as the actual figures would not fit in the space allowed.

ISMIE Mutual Exhibit 2B Surplus Study 2008

1. General discussion.

ISMIE Mutual surplus stands at $360.0 million, an increase of $27.4 million from a year earlier. Net written premium to surplus is at 64.7%, down from 137.3% in 2003 and 104.9% in 2005, and now below the industry average of 67.9%. The reserves to surplus ratio has fallen from 3.80 in 2003 and 3.65 in 2005 to 2.33 in 2008, in line with the medical malpractice 2007 industry ratio of 2.26.

2. Material events or trends.

Surplus adequacy has improved as of the end of 2008 relative to the company's risk profile (leverage) in comparison to results for the prior four years. Leverage at 2008 continues at favorable levels as those stated for 2001 and prior, despite the adverse results in 2002 and associated increase in leverage ratios. This is the result of company taking steps to improve premium adequacy in order to achieve acceptable operating results and better leverage ratios. Initially, this caused increases in premium leverage ratios but gradually, as has happened over the last few years, the premium and reserve leverage ratios have improved. In an effort to reduce risks associated with its net leverage position, the company took the further step of purchasing an additional layer of reinsurance starting in 2003. The favorable results have allowed the company to largely commute the first two years of this additional reinsurance. While the company believes surplus levels and current leverage ratios are now close to industry peers, there remains the goal of increasing surplus, reducing dependence on reinsurance and, ultimately, to continue to reduce the company's risk profile as would be reflected by lower leverage ratios.

ISMIE Mutual Exhibit 2B Reserve Study

1. General description.

New reserves for medical malpractice loss and loss adjustment expenses are set up each month as premium is earned. The amounts of currently earned premium to be set aside as indemnity and loss adjustment expense reserves are derived from factors used in the current ISMIE rate filing. These current year loss reserve amounts are then further split into ceded and net portions based on ratios implied by prior year loss ultimates by layer.

At the end of the fiscal year, June 30, reserves are reviewed for the year just completed and all prior years. This is done by the certifying actuary, the consulting actuary of the audit firm, and the internal actuary. All direct and ceded layers are reviewed for all years, indemnity and expenses using a range of methods, paid and incurred development, frequency/severity projections, projection of ratios of expense to indemnity, projections of ratios by layer to direct, adequacy of case reserves, Bornhuetter-Ferguson, etc.

This review is then updated using December 31st data.

During the interim, the ISMIE internal actuary monitors the development of paid and incurred losses at March 31 and September 30. Frequency of new claims, ratios of claims closing with indemnity, and severity of closing claims are all tracked monthly.

2. Adequacy.

ISMIE believes that booked reserves at year end 2008 are reasonable based on our own assessment, the assessment of the company's independent certifying actuary, and the review done by the consulting actuary in the course of the company's statutory audit. The materiality standard used in making this observation is 20% of surplus consistent with the actuarial report underlying the actuarial work and opinion; considering this amount to be material to the company's overall financial condition. Net reserves on 2001 and prior were increased $50 million in 2002, which at the time, was 21% of prior surplus. The company experienced relatively high adverse development on reserves in 2002 primarily due to an unexpected increase in claim severity on 2002 and prior coverage years, along with a 2002 claim frequency which was in excess of that anticipated by the current year reserving process described above. This deteriorating trend was addressed by the aforementioned 2002 reserve strengthening and lesser increases in 2003 and 2004, rate adjustments, and elevated monitoring of severity changes. Reserve development since 2004 has not shown similar trends, and in 2006, 2007, and 2008, reserves were reduced $20 million, $34 million, and $32 million respectively, mainly due to lower closed with indemnity ratios, and the fact that frequency has remained below the earlier levels.

3. ISMIE Mutual compared to industry trends.

ISMIE Mutual's experience of increasing severity followed by improved frequency is similar to what we understand has happened in general in the medical malpractice industry.